Muni 360

JULY 29, 2025

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

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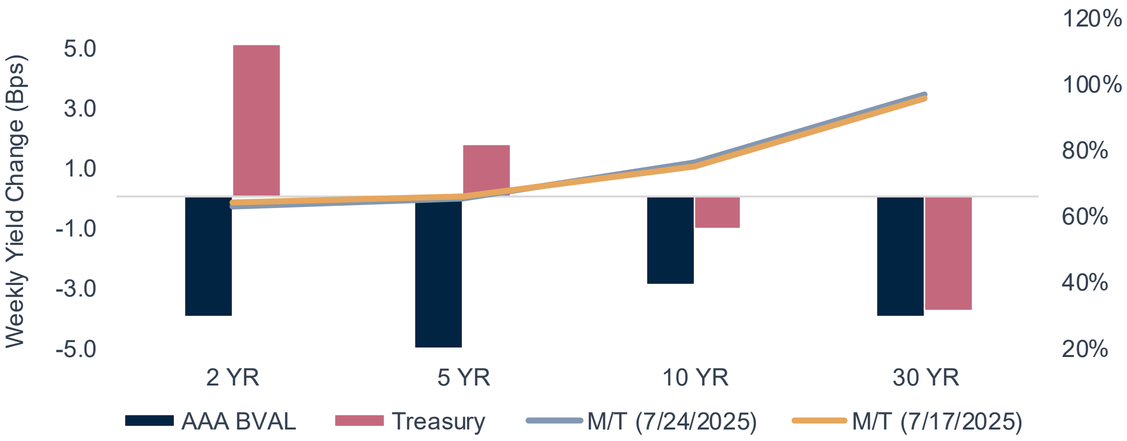
High Absolute Yields Give Investors Reason Not to Reach too Hard for Credit

- Smaller Dealer Balance Sheets Start to Transform Market
- How Cheap can Munis Get?
- Buyers Pump Brakes on Reaching for Yield

Relative Performance

Big news on the macro front is that the U.S. has agreed to a trade deal with the European Union, agreeing to a 15% tariff rate on most E.U. goods. While this news was broadly seen as a positive tailwind to the U.S. equities market, the bond market has yet to rejoice on yet another trade deal getting done. Somewhat surprising is that the chipping away at trade deal uncertainty has not helped tamper some of the uncertainty driven weakness in bonds. One thought is that the bond market is still looking forward in time to what the true fiscal impacts could be from tariffs, more broadly, and thinking that they might be a net drag on the U.S. economy. Over the past five trading days, AAA exempts and U.S. Treasuries took somewhat divergent paths, especially inside 5 years, where munis appeared to outperform. As such, Municipal-to-Treasury (M/T) yield ratios were tighter in shorter tenors, with the 5-year M/T ratio declining to 62.6% from 63.9%. This week's supply calendar of ~$12 billion should keep the market engaged and help with additional price discovery across the yield curve.

MUNIS OUTPERFORM ACROSS THE CURVE [1]



1. Data as of July 25, 2025. Source: Bloomberg. Spot Muni, Spot AA rates.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

NEW YORK LIFE INVESTMENTS

Market Technicals - Rates Much Less Euphoric Than Stocks on E.U. Deal

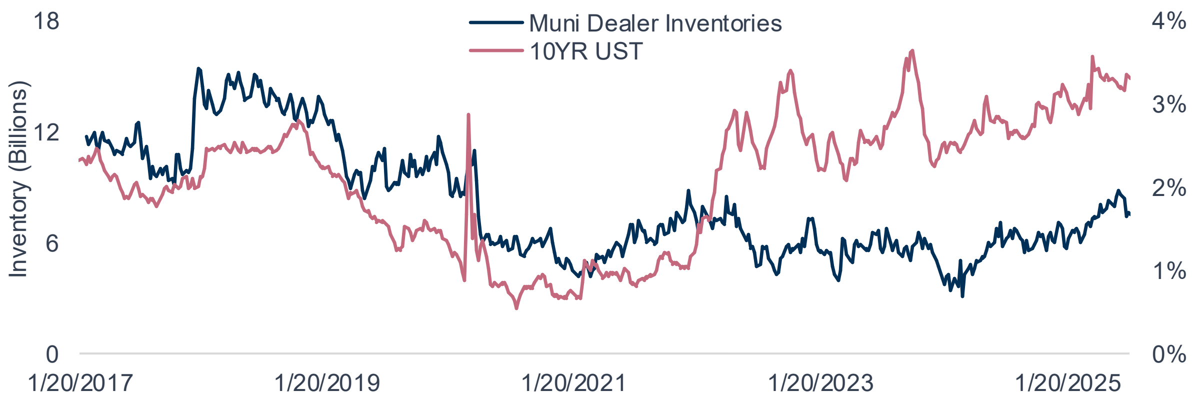
2025 YTD muni issuance figures have now grown to $347 billion, representing a 20% YoY growth rate. In terms of how deals are coming to market, negotiated new issuance has grown by 17% YoY, compared to competitive new issuance sales which have grown at almost twice that pace.

For those unfamiliar with market terms: When a muni issuer wants to raise money by issuing municipal bonds, they choose between two main methods to sell the bonds to investors: **negotiated underwriting and competitive underwriting**. They differ in how the underwriter is selected and how the bond terms are set.

- **For negotiated:** The issuer and the underwriter work closely over weeks or months. The underwriter helps with market timing, structuring the deal, preparing documents, and marketing the bonds.
- **For competitive:** The issuer sets the bond structure in advance and solicits bids on a specific date. Underwriters submit bids, and the issuer picks the best one.

At the current run rate, the year-to-date competitive sales of $61 billion may surpass last year's $86 billion. The shift in issuers accessing the markets via competitive auctions makes some sense in terms of how the muni market dynamics have shifted. Less broker dealers, and by proxy less balance sheet commitment for tax-exempts has not gone un-noticed. Municipal advisors most likely feel that by offering bonds competitively, they can save on some transaction fees and also lean into how much cash is on the sidelines still looking for quality paper. In the below chart, we note that primary dealer municipal balance sheet positions are still below pre-pandemic levels and further, have dropped as rates have risen. One knock-on effect of lower balance sheet commitment to the tax-exempt space are wider bid-ask spreads when volatility rises. We have seen this play out in both the Baa credit rung as well as with high yield munis, earlier this year. The era of tighter secondary liquidity could now be here to stay.

RISING RATES PUTS CRIMP ON DEALER RISK APPETITES[2]



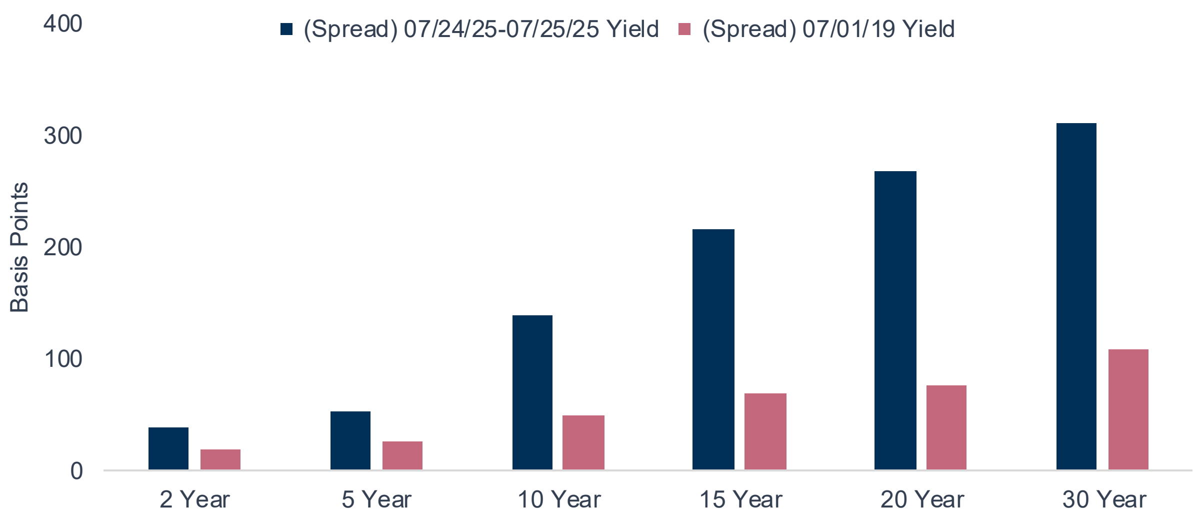
2. Data as of 07/28/2025. Source: Bloomberg.

Knock, Knock, Knocking on Cheapness Door?

We've consistently highlighted the compelling relative value of municipals in recent publications and client discussions. When compared to same-tenor U.S. Treasuries—or even AA and A-rated corporates—munis appear deeply undervalued across much of the curve.

The growing advantage of municipals is particularly evident when comparing taxable-equivalent yields of A-rated muni revenue bonds with A-rated corporates. In 2019, 10-year spot yields were nearly identical. Today, munis offer a 222 bps advantage at the 10-year mark for investors in the highest tax brackets. The differential becomes even more compelling further out the curve—322 bps at 15 years and 434 bps at 30 years.

MUNIS ADVANTAGE OVER CORPORATES AT MULTI-YEAR HIGHS[3]



3. Data as of 07/25/2025. Source: Bloomberg.

Muni Spread Buckets Clearing Away Pandemic Cloud

The rise in rates over the past year has reshaped credit spreads across the muni spectrum. In the chart below, we compare the yield-to-worst (YTW) spreads between credit tiers:

- Bloomberg Baa vs. A Muni Index
- Bloomberg A vs. AA Muni Index
- Bloomberg AA vs. AAA Muni Index

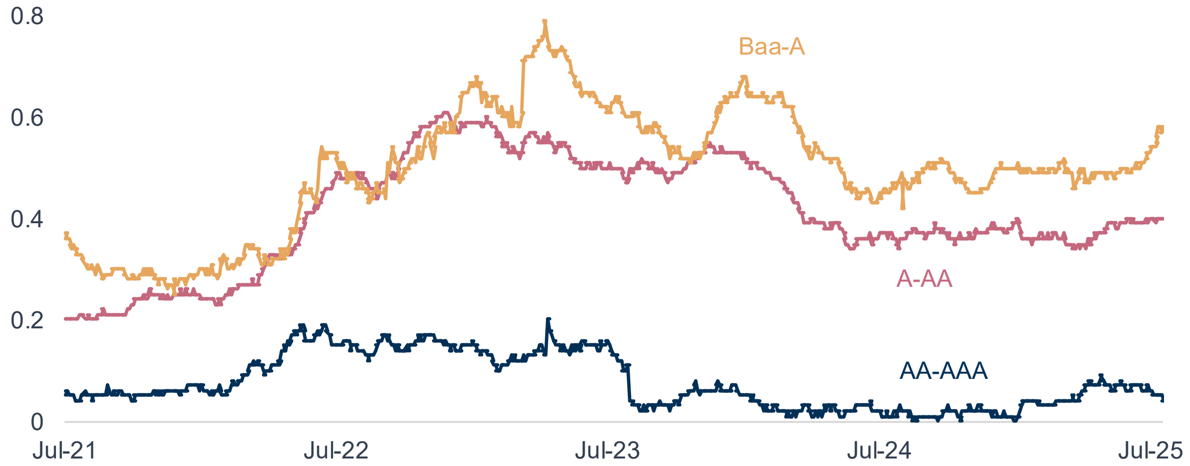
Key takeaways:

- AA and A spreads have remained relatively stable.
- Baa spreads are widening, driven by two primary factors:

Liquidity-driven selling: High-yield muni funds facing redemptions have predominantly offloaded Baa paper, increasing supply and pressuring spreads.

Risk appetite shift: In low-rate environments like 2022, investors reached down the credit spectrum, compressing spreads. With higher yields now available across the curve, there's less incentive to take on additional credit risk—keeping demand centered in the A and AA buckets.

A AND AA MUNI SPREADS RANGEBOUND AS REACHING FOR YIELD SLOWS[4]



4. Data as of 07/25/2025. Source: Bloomberg.

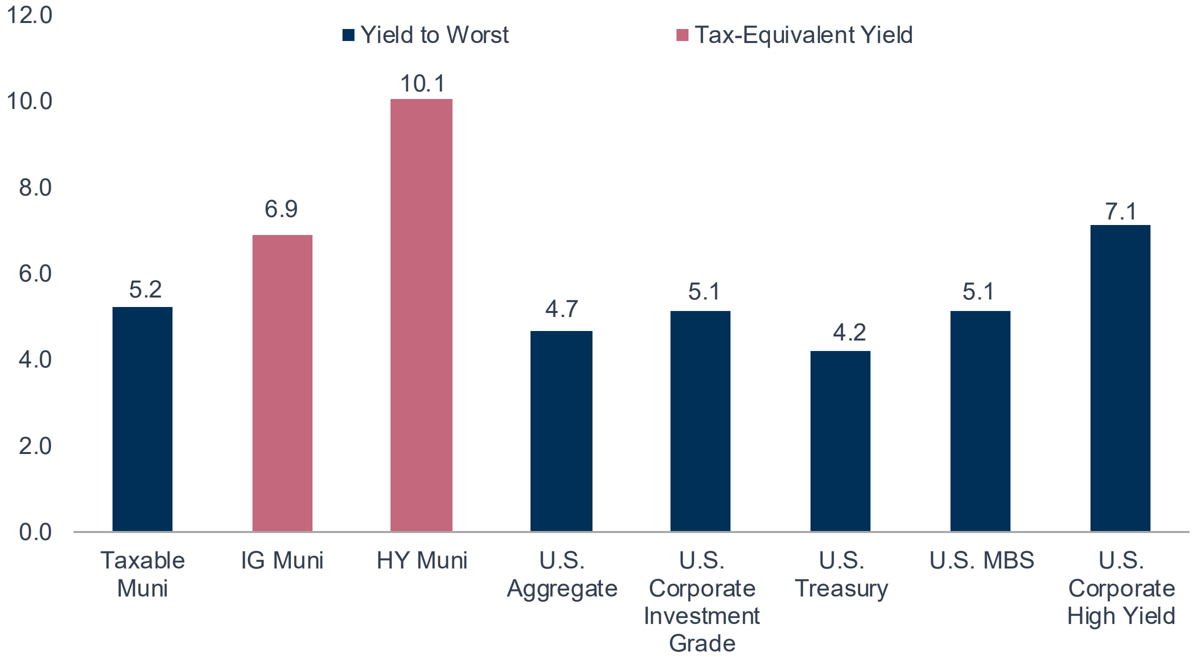
Questions from the Field

Q: What are some factors driving increased muni issuance in 2025?

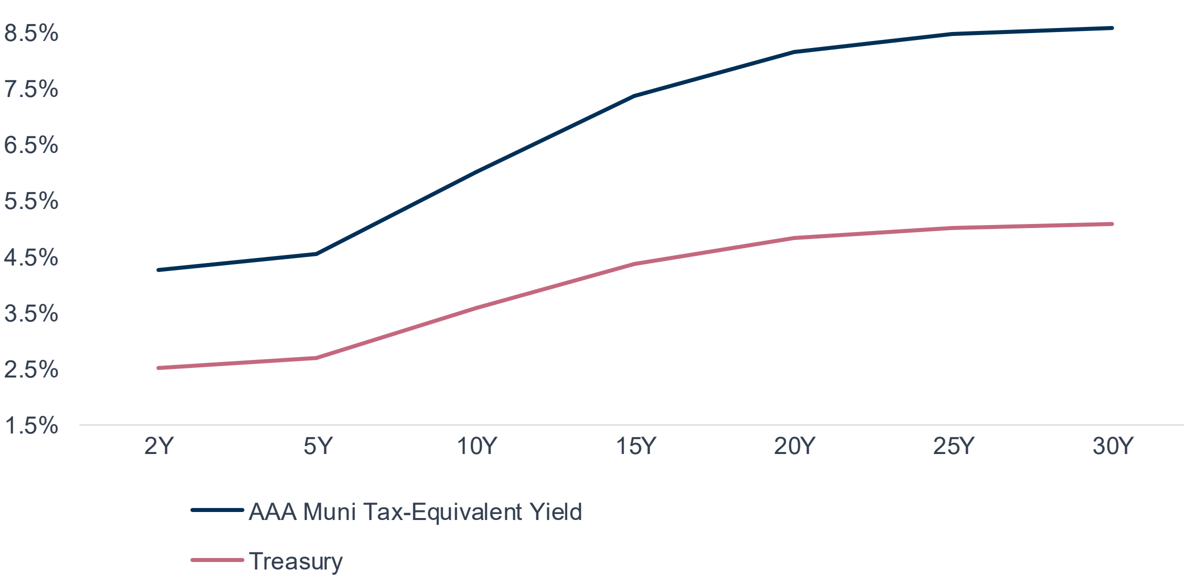
- Cost of New Builds much more expensive post Pandemic
- Pandemic Era Stimulus resulted in muted sales volumes

Year to date, the municipal bond market has had new issue sales of $332 billion, which represents a YoY growth rate of 20%. Last year with full year issuance of $540 billion, the municipal bond market had a high-water mark in terms of sales, eclipsing previous high-water marks in 2009-2010, when Build America Bonds were the most popular structures. As we see it, there are two factors driving increased sales volumes, now and going forward. The first is that things just cost more. We can blame inflation, to a degree, but the cost to build new schools, roads, or other capital projects has increased significantly since pre-pandemic. The second factor is that pandemic era stimulus which was on borrower balance sheets (and helped keep issuance lower for a few years) is now gone and municipal issuers need to get back into the schedule of financing projects that keep infrastructure in good repair. It appears there was a slight backlog from lower sales years in 2022 and 2023.

INDEX YIELDS (in %)[5]



AAA MUNI TAX-EQUIVALENT YIELD CURVE[6]



Data as of 07/25/2025.

5. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Taxable Muni: Bloomberg Taxable Municipal Bond Index; IG Muni: Bloomberg Taxable Municipal Bond Index; HY Muni: Bloomberg High Yield Municipal Bond Index; U.S. Aggregate: Bloomberg U.S. Aggregate Bond Index; U.S. Corporate Investment Grade: Bloomberg U.S. Corporate Investment Grade Index; U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. MBS: Bloomberg U.S. Mortgage-Backed Securities Index; U.S. Corporate High Yield: Bloomberg U.S. Corporate High Yield Index.

6. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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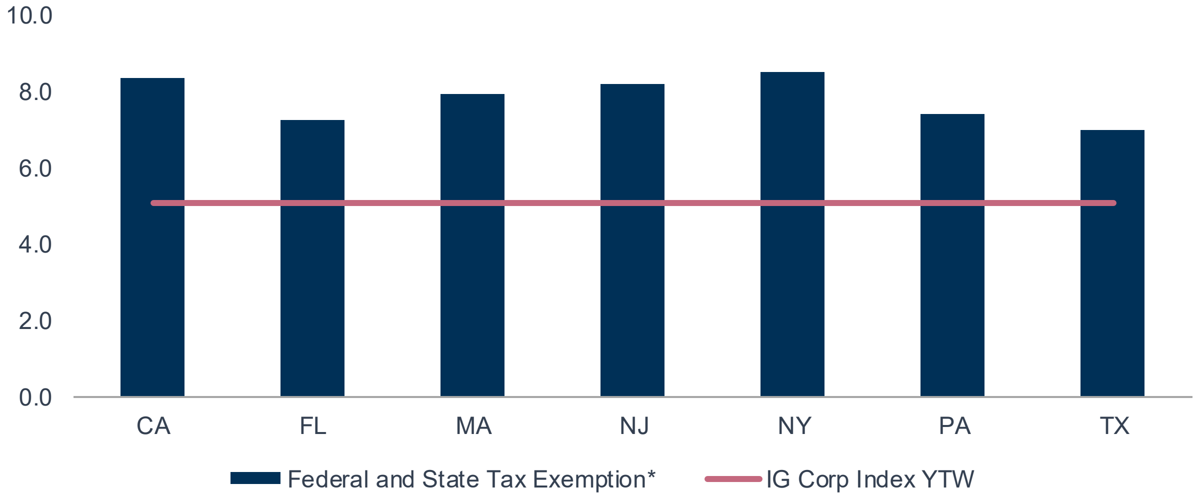
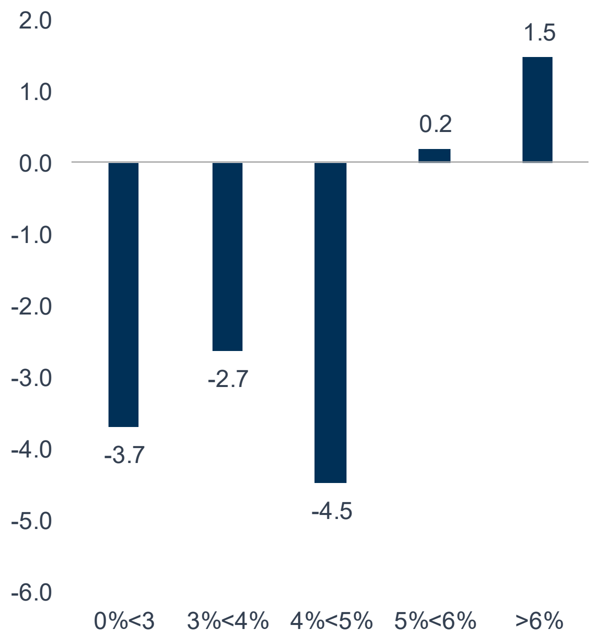
IN-STATE MUNI TAX-EQUIVALENT YTW (in %)[7]



YTD TOTAL RETURNS BY SECTOR (in %)[8]

YTD TOTAL RETURNS BY COUPON (in %)[9]



Data as of 07/25/2025.

7. Source: Bloomberg. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Using respective maximum state income tax rate.
8. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
9. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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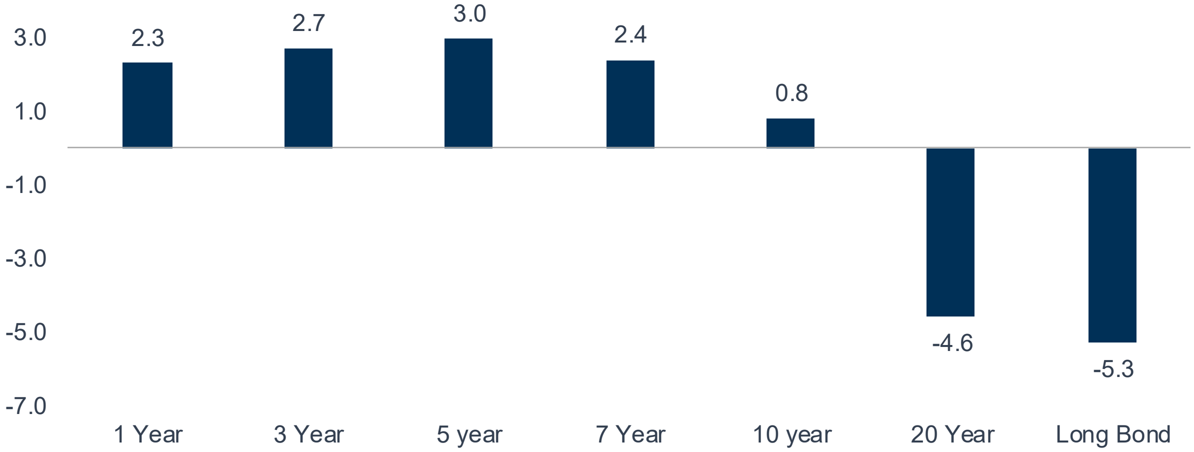
YTD TOTAL RETURNS BY MATURITY (in %)[10]



YTD TOTAL RETURNS BY RATING CATEGORY (in %)[11]

Data as of 07/25/2025.

10. Source: Bloomberg.

11. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST[12] (YTW)

MUNI YIELDS

Tenor	7/18/2025	7/25/2025	Change (+/–)
Bloomberg AAA Muni Key Rate Yields[13]			
2-year	2.50%	2.44%	-0.06%
5-year	2.62%	2.57%	-0.05%
10-year	3.36%	3.33%	-0.03%
30-year	4.81%	4.77%	-0.04%
U.S. Treasury Key Rate Yields[13]			
2-year	3.88%	3.91%	+0.03%
5-year	3.96%	3.95%	-0.01%
10-year	4.44%	4.40%	-0.04%
30-year	5.00%	4.92%	-0.08%
U.S. Treasury & AAA Muni Curve Slopes[14]			
	2s10s	**10s30s**	**2s30s**
U.S. Treasury Curve Slope	+49 bps	+52 bps	+101 bps
AAA Muni Curve Slope	+90 bps	+144 bps	+233 bps

Data as of 07/25/2025.

12. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–07/18/2025.

13. Source: Bloomberg.

14. Source: Bloomberg. 2s10s–is spread between 10yr and 2yr yield; 10s30s–refers to spread between 30yr and 10yr yield; 2s30s–refers to spread between 30yr and 2yr yield.

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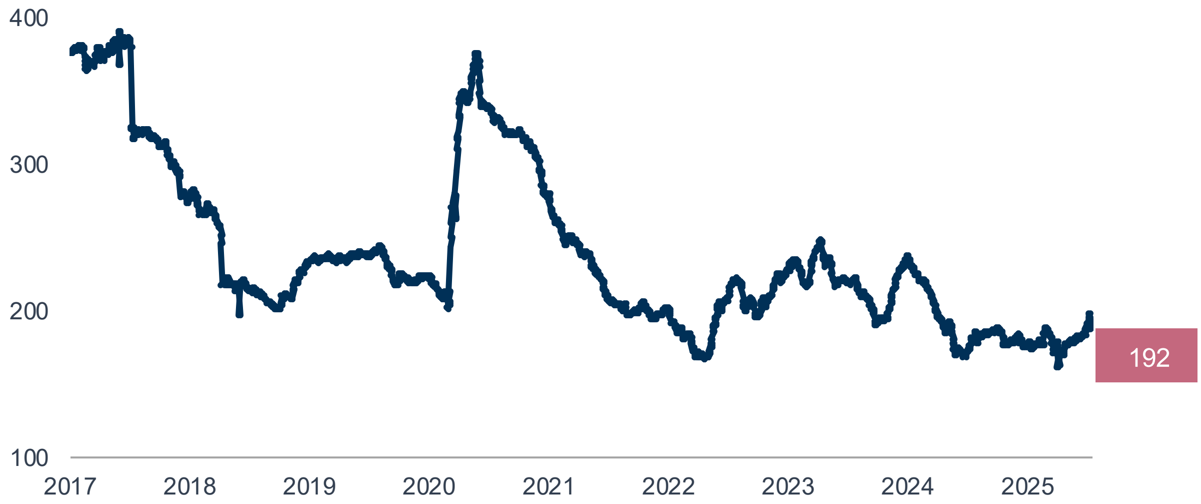
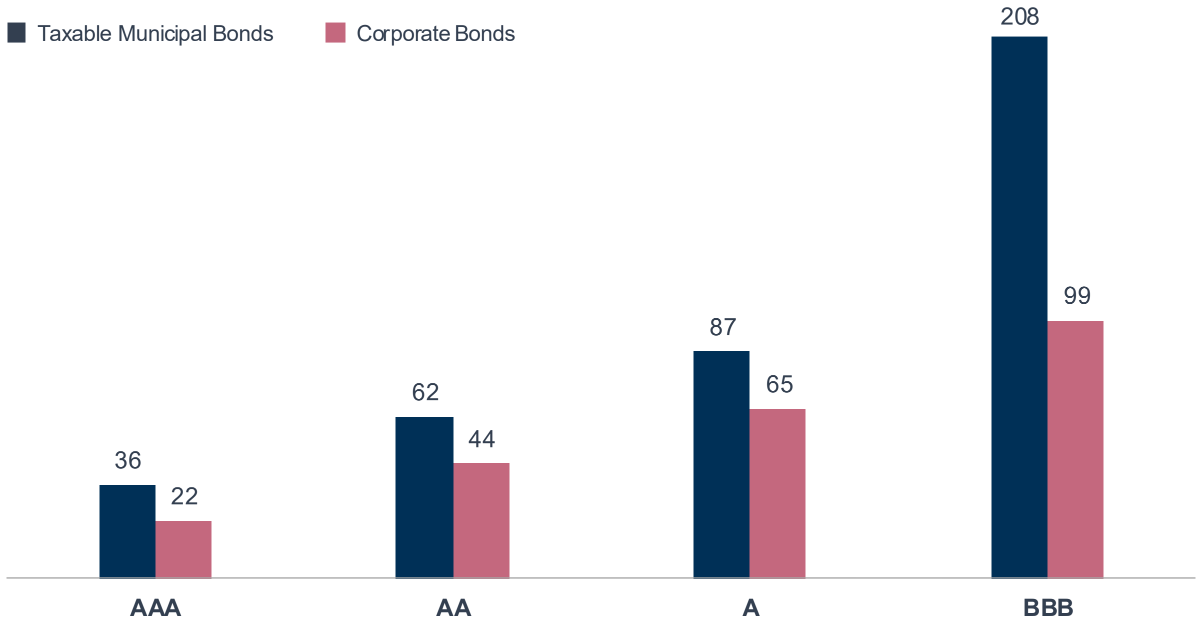
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL[15]



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[16]



Data as of 07/25/2025.

15. Source: Bloomberg.
16. Source: ICE Data. The spread, better known as the option-adjusted spread (OAS) is the measurement of the yield of a fixed income security over that of a risk-free rate of return, which is adjusted to take into account an embedded option.

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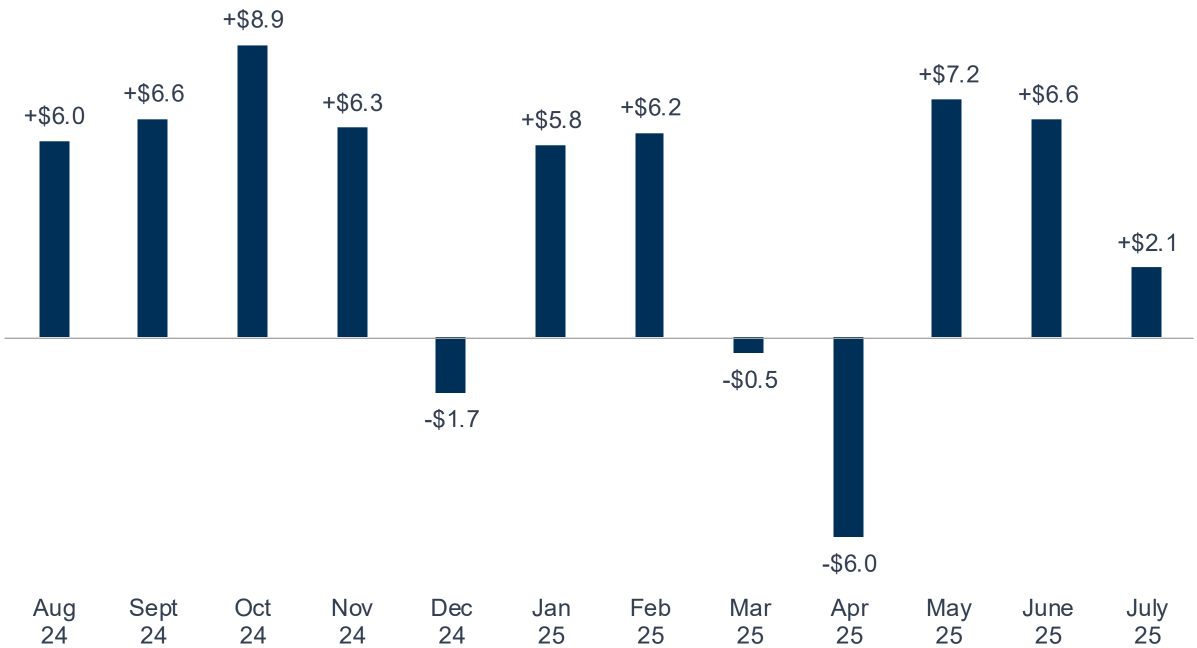
LONG TERM FUND FLOWS[17] (USD BILLION)



Data as of 07/25/2025.

17. Source: Investment Company Institute (ICI). http://www.ici.org.

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ADDITIONAL YIELD DEFINITION

BVAL AA, A, BBB and BB Yields is calculated by Bloomberg and is representative of the average 2YR spot rate on respective Bloomberg Yield curves of corporate credits with the respective average credit rating that are valued by Bloomberg's valuation service.

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INDEX DESCRIPTIONS

Bloomberg Municipal Bond Total Return Index is a broad, market-weighted index that tracks the performance of the long-term, tax-exempt bond market in the United States. It includes general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds, and is designed to be a benchmark for investors in this market.

Bloomberg Municipal Taxable Bond Index The Bloomberg U.S. Taxable Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term taxable bond market. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies if all three rate the bond: Moody's, S&P, Fitch. Must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate and must be at least one year from their maturity date. This index is the subindex that has been created based on 5–10 year maturity.

Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a date-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and pre-refunded bonds. Most of the index has historical data to January 1980. In addition, sub-indices have been created based on maturity, state, sector, quality, and revenue source, with inception dates later than January 1980.

Bloomberg High Yield Municipal Bond Index is a flagship measure of the U.S. municipal tax-exempt non-investment grade bond market. Included in the index are securities from all 50 U.S. States and four other qualifying regions (Washington DC, Puerto Rico, Guam, and the Virgin Islands). The index includes state and local general obligation bonds and revenue bonds. All bonds in the Municipal High Yield Bond Index are tax exempt and hence are not eligible for other indices that include taxable high yield bonds, such as the U.S. High Yield Index and EM USD Aggregate Index.

Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. Must have at least one year to final maturity regardless of call features. Must have at least $300 million par amount outstanding. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be dollar-denominated and non-convertible.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Treasury Index Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Must be a U.S. Treasury security. Must have at least $300 million par amount outstanding. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be fixed rate. Must be dollar-denominated and non-convertible.

Bloomberg U.S. Mortgage-Backed Securities Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Must have a weighted average maturity (WAM) of at least one year. Must have at least $300 million par amount outstanding. Must be fixed rate.

Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must have at least one year to final maturity regardless of call features. Must have at least $150 million par amount outstanding. Must be rated high yield (Ba1/BB+ or lower) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. Must be dollar-denominated and non-convertible. Must be publicly issued.

NEW YORK LIFE INVESTMENTS

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